

**TOP SECRET**

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1. ARAB "SUMMIT" COMMUNIQUE

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The communiqué issued following the conclusion of the meetings of the four Arab chiefs of state in Cairo glosses over serious differences of opinion which arose during later stages of the talks. The statement gives some details on King Saud's report of his talks in the United States. The four leaders reaffirm, however, their "determination" to "abide by the policy of constructive neutrality." The remainder of the communiqué is a reiteration of Arab grievances against Israel and a protest against the actions of the British in Yemen and the French in Algeria.

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### 3. CONTINENTAL OPPOSITION TO BRITISH FORCE CUTS HARDENS

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Allied disagreement with the British troop reduction plans in Germany was even stronger in the Western European Union council meeting on 26 February than at

the North Atlantic Council meeting last week, Britain's NATO representative told an American embassy official. London's insistence on a time schedule calling for NATO and WEU decisions within two weeks was also criticized as leaving little time for working out a compromise. The embassy notes, however, that the opposition has not yet implied an intention of rejecting the British proposal under the terms of the Paris agreements.

The embassy believes, from Foreign Secretary Lloyd's remarks on 26 February to an American official, that Britain will "at the right time" agree to phase the force reductions into 1959. This would meet one of SACEUR's recommendations, but leave unsatisfied his wish to have part of the British strategic reserve stationed in Germany rather than in the United Kingdom.

The embassy gained the impression of a general preference for the North Atlantic Council as a forum, where American participation might provide some policy guidance.

#### Comment

Both London and the opposition are proving more unyielding than anticipated--as suggested also by the suspension of the WEU session after only one of the scheduled two days of meetings. London's insistence on a tight time schedule is largely determined by Britain's budgetary planning requirements for the fiscal year that begins on 1 April.



#### 4. HUNGARY CLAMPS DOWN ON ACCESS TO WESTERN LEGATIONS

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A barrier of police and plain-clothes men has been thrown around the American, Austrian, French and British legations in Budapest. All Hungarians visiting these missions are being stopped and questioned. Officials of the British legation have been followed by plain-clothes men and asked by the uniformed police to produce credentials.

The first anti-American poster seen in Budapest since the spring of 1955 has appeared, and a Hungarian reported that upon leaving the American legation, he was searched for weapons and "pressed to admit" that the legation was handing out firearms.

#### Comment

This all-out campaign coincides with security precautions against possible demonstrations against the regime on the national holiday on 15 March. It is designed to isolate and discredit the Western missions, to demonstrate that the regime has control of the internal situation, and to force the West to deal with the Kadar government.



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## 5. CONFIDENCE VOTE THREATENS ITALIAN GOVERNMENT

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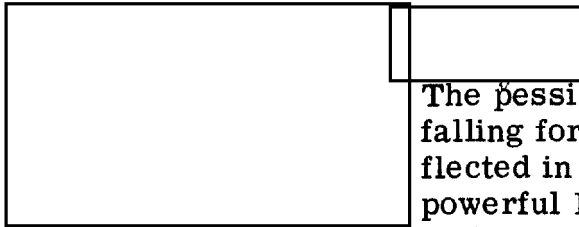
The confidence vote tentatively scheduled for 28 February in the Italian parliament is an attempt by Christian Democratic premier Segni to test his majority following the Republican Party's announcement on 24 February that he can no longer count on its support. The Republicans are not represented in the cabinet, but their five votes in the Chamber of Deputies have constituted part of the coalition's 16-vote majority. A vote of no confidence could result in new national elections.

The Republicans object to various government policies, including pending land reform legislation as now drafted, an objection shared by the Democratic Socialists and the Christian Democratic left wing. The American embassy in Rome believes that chances of a crisis are increased by Segni's reluctance to compromise and the Social Democrats' fear of becoming the only left-center party supporting the government. On the other hand, most coalition parties will wish to avoid being blamed for hastening national elections or delaying ratification of the Common Market and EURATOM.

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**6. PRESSURE GROWS FOR DEVALUATION OF  
FRENCH FRANC**

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The pessimism in Paris over France's falling foreign exchange reserves is reflected in the growing pressure from the powerful French employers' organization, the Patronat, for devaluation of the franc. A spokesman for the organization has told the American embassy that the Patronat strongly favors devaluation to solve France's balance of payments problem, provided such a move is accompanied by real cuts in government spending.

The government publicly warned on 22 February that France faces exhaustion of its normal foreign exchange reserves within one month if the January record trade deficit of \$174,000,000 is continued. The American embassy in Paris points out that the January deficit was swollen by deferred purchases of oil and other items resulting from the Suez crisis, but agrees that the foreign exchange situation is increasingly serious.

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8. SOUTH VIETNAM INCENSED OVER ANTI-DIEM FORCES  
IN CAMBODIA

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The apparent conviction of Saigon lead-  
ers that the recent attempted assassina-  
tion of President Diem is attributable to  
anti-Diem Vietnamese in Phnom Penh  
may provoke reprisals against Cambodia.  
Diem himself believes that the growing  
Communist influence in Cambodia as a  
result of Prince Sihanouk's policies fos-  
ters the activities of these elements and  
poses a serious subversive threat to South  
Vietnam.

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Saigon has long been frustrated by its  
inability to suppress harassing attacks by dissident sects  
and Viet Minh bands using Cambodian territory as a base  
of operations.

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